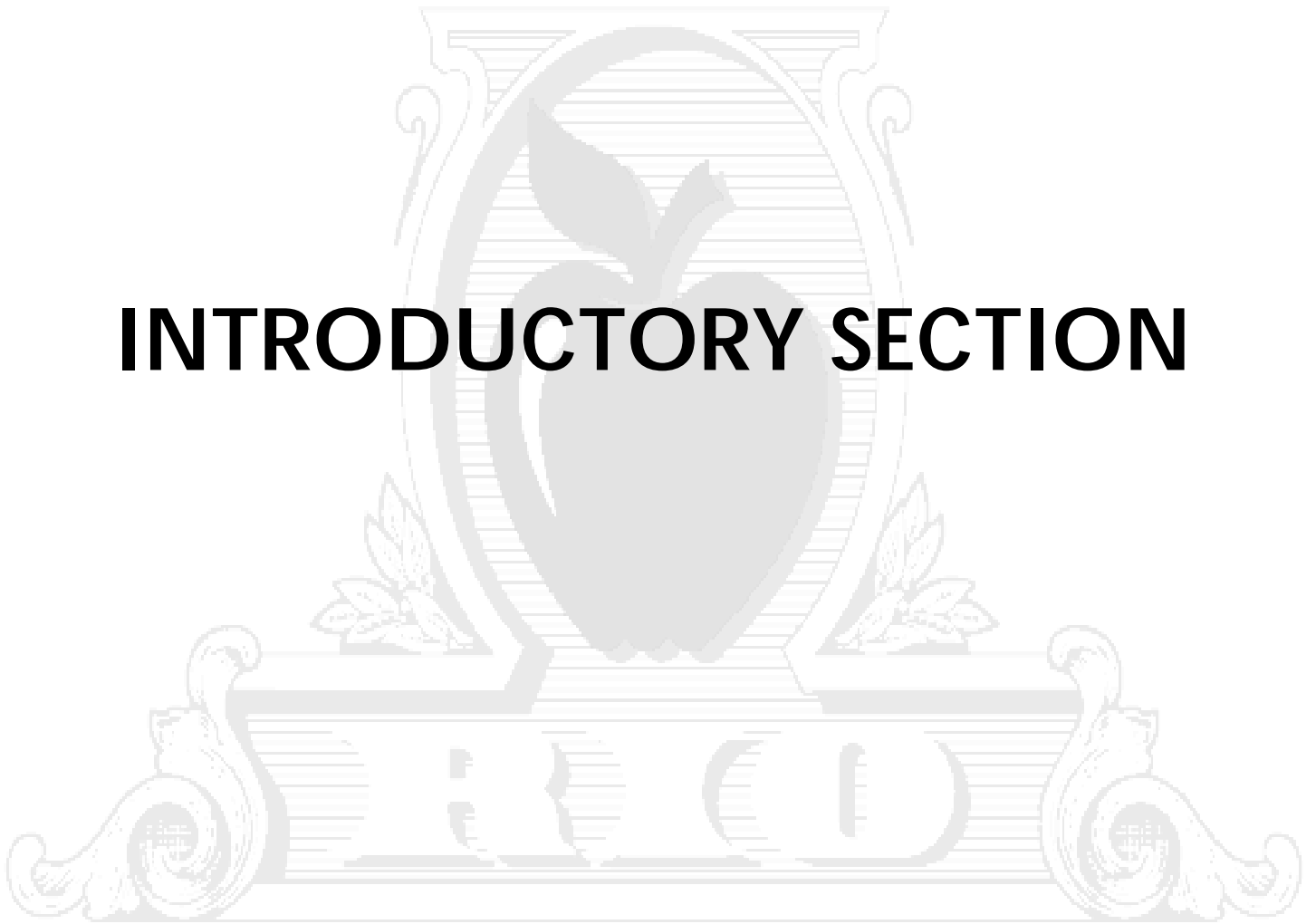


INTRODUCTORY SECTION





ND Retirement and Investment Office

*Teachers' Fund for Retirement
State Investment Board*

Steve Cochrane, CFA
Executive Director

Fay Kopp
Deputy Executive Director

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
ND Toll Free 800-952-2970
Relay ND 800-366-6888
Fax 701-328-9897
www.nd.gov/rio

November 17, 2008

Members of the
North Dakota State Investment Board
North Dakota Teachers' Fund for Retirement Board

Dear Board Members:

With pleasure we present you with the June 30, 2008, Comprehensive Annual Financial Report (CAFR) for the North Dakota Retirement and Investment Office (RIO). The report is a complete review of the financial, investment, and actuarial conditions of the two programs for which you are responsible. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of RIO.

Generally accepted accounting principals (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. RIO's MD&A can be found immediately following the report of the independent auditors in the Financial Section.

RIO is an agency of the State of North Dakota. The agency was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of two important long-standing state programs – the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the State Investment Board (SIB).

Established in 1913, TFFR is one of the oldest retirement plans in the nation. TFFR is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code. North Dakota Century Code Chapter 15-39.1 contains the actual language governing the fund. The plan covers North Dakota public school teachers and administrators. The TFFR plan is funded on an actuarial reserve basis. Benefit funding comes from member and employer contributions and investment earnings. TFFR serves over 9,500 teachers from 235 employer groups and pays benefits to more than 6,300 retirees and beneficiaries. High quality member services and outreach programs are offered to members and employers as part of the continuing effort to keep them informed about the retirement program.

The SIB is responsible for setting policies and procedures guiding the investment of \$5.4 billion in assets for six pension funds and 15 other insurance-type funds. Their investments are divided into two investment trust funds and one individual investment account. The following table details the participants in each trust fund as of June 30, 2008:

Pension Investment Pool Participants

Teachers' Fund for Retirement
 Public Employees Retirement Fund
 City of Bismarck Employees Pension Fund
 City of Bismarck Police Pension Fund
 Job Service of North Dakota Pension Fund
 City of Fargo Employee Pension Fund

Individual Investment Account

PERS Retiree Health Insurance Credit Fund

Insurance Investment Pool Participants

Workforce Safety & Insurance (WSI) Fund
 State Fire and Tornado Fund
 State Bonding Fund
 Insurance Regulatory Trust Fund
 Petroleum Tank Release Compensation Fund
 ND Health Care Trust Fund
 State Risk Management Fund
 State Risk Management Workers Compensation Fund
 Cultural Endowment Fund
 Budget Stabilization Fund
 ND Association of Counties Fund
 ND Association of Counties Program Savings Fund
 City of Bismarck Deferred Sick Leave Fund
 NDPERS Group Insurance Account
 City of Fargo FargoDome Permanent Fund

The pension investment pool is made up of only qualified pension funds whose monies must be invested exclusively for the benefit of their participants. The insurance investment pool is made up of mainly insurance-type funds, but also includes other funds that do not qualify as pension funds and would like to benefit from the cost savings of being pooled with other funds' assets. All of these funds are invested in accordance with the "Prudent Investor Rule."

An important aspect of the prudent investor rule is that individual investments are considered not in isolation but in the context of the trust portfolio as a whole. Some new opportunities may appear risky when viewed alone. However, when part of a diversified mix of investments in stocks, bonds and other assets they can increase returns often without increasing the overall portfolio risk and, in some cases, may help decrease the overall portfolio's risk.

The pension investment pool was created in July 1989 with the pooling of selected investments of TFFR and the Public Employees Retirement System (PERS). Assets from the City of Bismarck Employees and Police pension funds were added later that same fiscal year. In April 1994, Job Service of North Dakota made their initial contribution to the pool. And most recently, the City of Fargo Employees pension plan joined the pension pool in December 2007.

The insurance investment pool began in December 1993 with the pooling of the assets of the WSI, Fire and Tornado, Bonding, Insurance Regulatory, and Petroleum Tank Release funds.

Other additions to this pool have occurred as follows:

- The Risk Management Fund was added in October 1996.
- The two North Dakota Association of Counties funds were added during fiscal year 1999, in January and March.
- The City of Bismarck Deferred Sick Leave and PERS Group Insurance funds were both added in July 1999.
- The ND Health Care Trust fund was added in July 2001 by legislative mandate.
- The City of Fargo FargoDome Permanent Fund was added in October 2002.
- The Risk Management Workers Compensation Fund was added in October 2003.
- The Cultural Endowment Fund was added by the 2005 legislature and funded in July 2005.
- The Budget Stabilization Fund joined the pool in September 2005 upon reaching statutorily designated levels.

Four funds have left the insurance investment pool after having been included in it at some point during its existence - the Veterans' Home Improvement Fund was added in July 1996 and removed in August 1997, the National Guard Tuition Waiver Fund was added in June 1996 and removed in June 1999, the Veterans Post War Trust Fund was added in December 1997 and left the pool in September 2005, and the Veterans Cemetery Trust joined the pool in August 1997 and was removed in August 2007.

MAJOR INITIATIVES

- Retirement Program

TFFR Funding Improvement Legislation - The 2007 Legislature approved changes to improve TFFR's long-term financial condition. Funding information and details can be found in the Actuarial Section. Administrative rules were adopted, system programming was completed, member and employer publications were updated, and legislative changes were implemented during the fiscal year.

Effective 7/1/07, employer contributions of 7.75% required on salaries of re-employed retired members.

Effective 7/1/08, employer contributions increase from 7.75% to 8.25% on salaries of active and re-employed retired members until TFFR reaches 90% funded level on an actuarial basis. Also, a second tier of reduced member benefits is created for new TFFR members. Tier 2 member benefit provisions include Rule of 90, 5 year vesting, and 5 year final average salary calculation.

Other Legislation – The 2007 Legislature approved legislation which allowed 16 employees of the State Board of Career and Technical Education to transfer from TFFR to PERS. Employees were given the option, and member account data and funds were transferred from TFFR to PERS in September 2007.

Service Purchase Project – TFFR Board approved new actuarial methodology and factors for calculating the cost to purchase service credit. Changes were communicated to members, system programming was completed, and changes were implemented on July 1, 2008.

TFFR Member and Employer Web-Based Services - As part of the ongoing effort to expand services, TFFR Employer Online is scheduled to be available in 2009, and TFFR Member Online in 2010.

- Investment Program

Investment details by trust fund can be found in the Investment Section.

Initiatives completed by the SIB during the year included:

Within the Pension Investment Pool

- ✓ Committed funds to a non-US private equity fund.
- ✓ Committed funds to an emerging markets private equity fund in the emerging markets asset class.
- ✓ Diversified real estate asset class by committing funds to a value added real estate fund.
- ✓ Committed funds to a mezzanine debt fund in the high yield asset class.
- ✓ Funded a portable alpha manager in the domestic fixed income asset class.
- ✓ Funded two portable alpha managers in the large cap domestic equity asset class.
- ✓ Committed funds to two distressed mortgage funds in the high yield asset class.
- ✓ Replaced a small cap value international equity manager.
- ✓ Committed funds to a co-investment opportunity with an existing private equity manager.
- ✓ Committed funds to a distressed senior credit fund in the domestic fixed income asset class.
- ✓ Opened a second cash management fund for the pension cash allocation.
- ✓ Committed funds to an Asian infrastructure fund in the emerging markets asset class.

Within the Insurance Investment Pool

- ✓ Committed funds to a timberland investment fund to be included in the inflation protected asset class.
- ✓ Replaced a small cap value international equity manager.
- ✓ Committed funds to an infrastructure investment fund to be included in the inflation protected asset class.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the tenth consecutive year that RIO has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

TFFR also received the Public Pension Coordinating Council (PPCC) 2008 Recognition Award for Administration. To receive the award, the retirement system must certify that it meets the requirements in five areas of assessment which include a comprehensive benefit program, actuarial valuations, financial reporting, investments and communications to members.

FINANCIAL INFORMATION

RIO is subject to very strict operational controls. Well-established internal controls are in place, segregation of duties is maintained, and an internal audit program is in effect. In addition, an annual external audit is performed and the results are reported to the Legislative Audit and Fiscal Review Committee.

Brady Martz & Associates conducted the external audit under the direction of the North Dakota State Auditor. The auditor's opinion was unqualified for the agency for the year ended June 30, 2008.

The tables below summarize RIO's revenues and expenses for the current and prior fiscal years:

Pension Trust Fund (TFFR)	June 30, 2008	June 30, 2007	Incr/(Decr) \$	Incr/(Decr) %
Additions	\$ (70,067,670)	\$ 413,128,085	\$ (483,195,755)	-117.0%
Deductions	113,596,331	104,658,896	8,937,435	8.5%
Net Change	\$ (183,664,001)	\$ 308,469,189	\$ (492,133,190)	-159.5%

In the pension trust fund, additions decreased due to a decrease in net investment income as a result of the decline in the investment markets. Deductions increased because the average benefit increased from the previous year, as did the number of retirees receiving benefits throughout the year.

Investment Trust Funds	June 30, 2008	June 30, 2007	Incr/(Decr) \$	Incr/(Decr) %
Additions	\$ (106,478,131)	\$ 485,544,925	\$ (592,023,056)	-121.9%
Deductions	333,264	300,296	\$ 32,968	11.0%
Net Change in Units	55,407,290	(63,899,794)	\$ 119,307,084	-186.7%
Net Change	\$ (51,404,105)	\$ 421,344,835	\$ (472,748,940)	-112.2%

In the investment trust funds, additions also decreased due to a decrease in net investment income. Deductions increased due to an increase in administrative expenses allocated to the pool participants during the year.

FUNDING STATUS

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The member and employer contribution rates are established by statute. The member rate is set at 7.75%. Effective July 1, 2008, the employer rate increased from 7.75% to 8.25%. The addition of 0.50% to the employer contribution rate will remain in effect until TFFR is 90% funded on an actuarial basis. The rates are intended to be sufficient to pay TFFR's normal cost and to amortize TFFR's unfunded actuarial accrued liability (UAAL) over a period of 30 years from the valuation date. A thirty-year period is the maximum amortization period allowed by GASB 25 in computing the Annual Required Contribution (ARC). The thirty-year period is in common use for public-sector plans and is considered reasonable by the actuary.

In order to determine the adequacy of the 8.25% statutory contribution rate, it is compared to the GASB 25 ARC. The ARC is equal to the sum of (a) the employer normal cost, and (b) the level percentage of pay required to amortize the UAAL over a 30-year period. For this calculation, payroll is assumed to increase 2.00% per annum. As of July 1, 2008, the ARC is 9.24%, decreased from 10.15% last year. This is greater than the 8.25% rate currently required by law. The shortfall (the negative margin) between the rate mandated by law and the rate necessary to fund the UAAL in 30 years is -0.99%.

The plan had a net asset loss of \$63 million from previous years which has not yet been recognized in the actuarial value of assets, because of the five-year smoothing. This unrecognized asset loss is due to a large market loss during FY2008.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) increased from last year. The funded ratio at July 1, 2007, was 79.2%, while it is 81.9% as of July 1, 2008. Based on market values rather than actuarial values of assets, the funded ratio decreased to 79.2% from 91.9% last year.

The following table summarizes the actuarial valuation of the TFFR plan. A detailed discussion of funding is provided in the Actuarial Section of this report.

	July 1, 2008 (in millions)	July 1, 2007 (in millions)
Actuarial value of assets	\$ 1,909.5	\$ 1,750.1
Unfunded actuarial accrued liability	421.2	459.2
Funded ratio	81.9%	79.2%

INVESTMENT ACTIVITIES

The investment policies and strategies for each of the funds under the SIB can be found in the Investment Section of this report. Each policy is created by the individual fund and presented to the SIB for acceptance. Once accepted, the policy is used as a guide to determine participation in the applicable pools. The policies are designed to provide safeguards on assets while optimizing return based on each fund's risk parameters.

The return information presented in the Investment Section is calculated with the assistance of our consultant, Callan Associates, based on data supplied by our custodian, The Northern Trust Company, and the individual investment managers. The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values and are subject to independent audit.

PROFESSIONAL SERVICES

Professional consultants are selected by the TFFR Board and the SIB to perform professional services that are essential to the effective and efficient operation of the retirement and investment programs. An opinion from the certified public accountant and the actuary are included in this report. The consultants chosen by the boards are listed in the Introductory Section of this report.

Respectfully yours,



STEVE COCHRANE, CFA
Executive Director/CIO



FAY KOPP
Deputy Executive Director



CONNIE L. FLANAGAN
Fiscal & Investment Officer

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Mission

The North Dakota Retirement and Investment Office exists in order that:

- ◆ SIB clients receive cost-effective investment services directed at meeting their written financial goals under the Prudent Investor Rule.
- ◆ SIB clients receive investment returns consistent with their written investment policies and market variables.
- ◆ Potential SIB clients have access to information regarding the investment services provided by the SIB.
- ◆ TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
- ◆ TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.
- ◆ SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.

Administrative Staff



Steve Cochrane, CFA
Executive Director/CIO



Fay Kopp
Deputy Executive Director

Supervisory Staff

Connie L. Flanagan
Fiscal Management

Shelly Schumacher
Retirement Services

Les Mason
Internal Audit

Bonnie Heit
Administrative Services

Gary Vetter
Information Services

NORTH DAKOTA STATE INVESTMENT BOARD

Board Members as of June 30, 2008

Investment Program

Investment Process

The ND State Investment Board believes that an investment program must be built and managed like any good business, with a clear statement of mission, overall objectives, roles and responsibilities, and policies and guidelines. Major issues include:

Asset allocation targets:

- Setting appropriate benchmarks.
- Finding the right managers.
- Monitoring the program.
- Searching for appropriate new opportunities.

To ensure rigorous attention to all aspects of the investment program, the SIB follows an established investment process. This process involves three phases:

- Investment policy development/modification
- Implementation/monitoring
- Evaluation



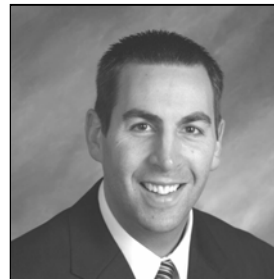
Jack Dalrymple
Chair
Lt. Governor



Clarence Corneil
Vice Chair
TFFR Trustee



Kelly Schmidt
State Treasurer



Adam Hamm
State Insurance
Commissioner



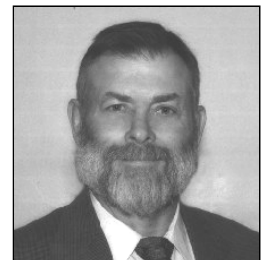
Cindy Ternes
Workforce Safety &
Insurance Designee



Gary Preszler
University and
School Land
Commissioner



Robert Toso
TFFR Trustee



Mike Gessner
TFFR Trustee



Mike Sandal
PERS Trustee



Ron Leingang
PERS Trustee



Thomas Trenbeath
PERS Trustee

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

Board of Trustees as of June 30, 2008

Retirement Program

Mission

The mission of the Teachers' Fund for Retirement, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members within the resources available.

Goals

Investment and Funding Goals:

- Prudently invest assets in a well diversified portfolio to optimize long term returns while controlling risk to the fund.
- Accumulate sufficient funds to pay all current and future benefit and expense obligations when due.
- Improve and maintain adequate funding of all promised benefits to ensure the financial integrity of the system.
- Build a funding cushion to provide for future benefit improvements.

Benefit Goals:

- Provide 2.0% benefit formula for all current and future retirees.
- Provide ad hoc retiree benefit adjustments (fixed formula and percent based) for all current and future retirees to maintain purchasing power of retirement benefits and assist with rising health care costs. Benefit adjustments may be considered when the Board believes it is prudent based upon actuarial funding measurements including:
 - a. Positive contribution margin
 - b. Amortization of UAAL within GASB 30-year funding period
 - c. Funded ratio of 90% or greater

Service Goals:

- Administer accurate, prompt, and efficient pension benefits program.
- Deliver high quality, friendly service to members and employers.
- Provide educational outreach programs including pre-retirement seminars and individual counseling sessions.



Mike Gessner
President
(active teacher)



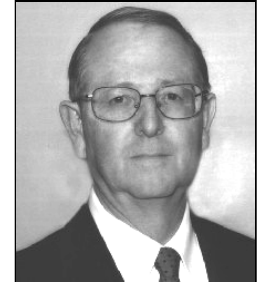
Lowell Latimer
Vice President
(retired member)



Kim Franz
Trustee
(active teacher)



Robert Toso
Trustee
(active administrator)



Clarence Corneil
Trustee
(retired member)



Kelly Schmidt
State Treasurer

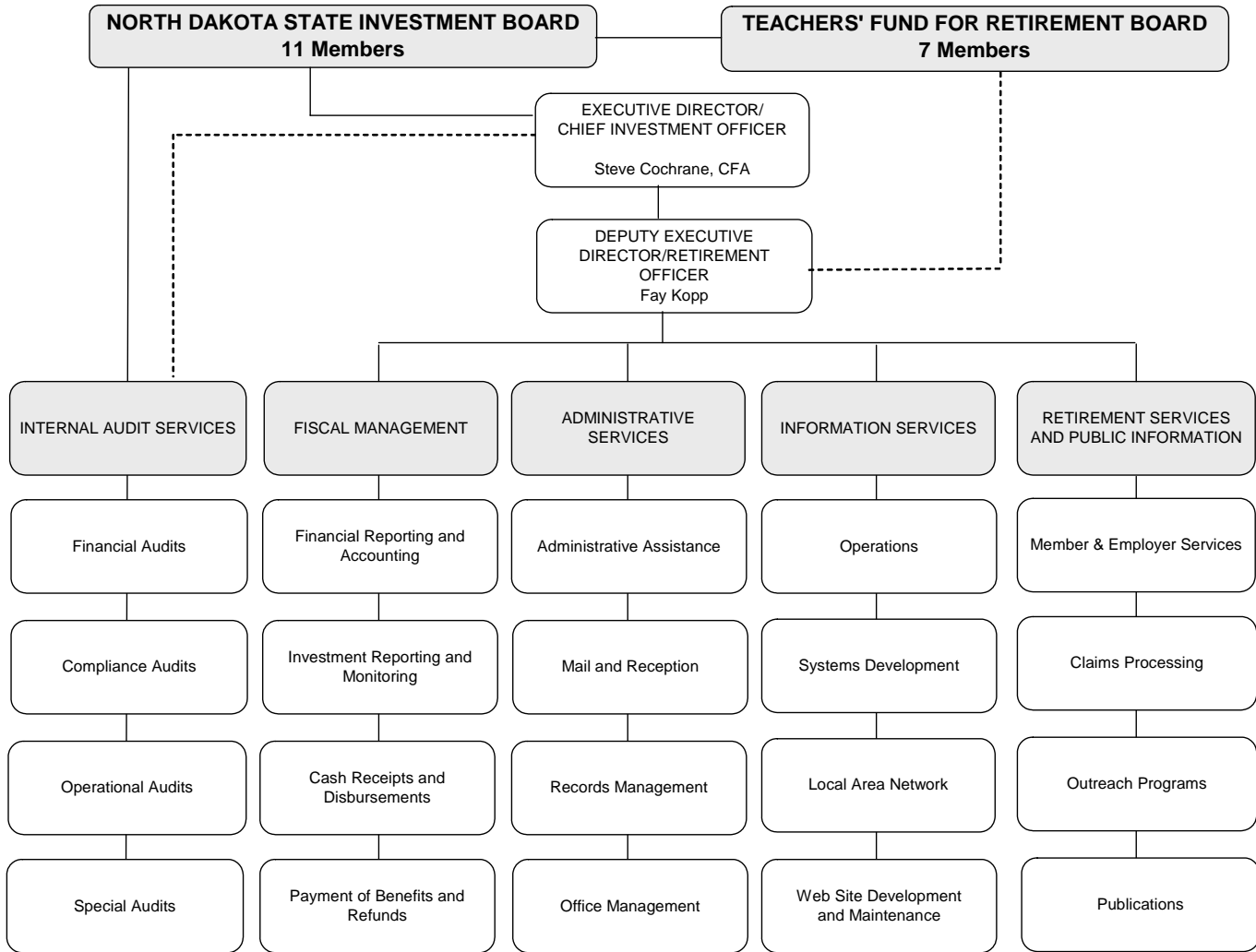


Wayne Sanstead
State Superintendent
of Public Instruction

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

ADMINISTRATIVE ORGANIZATION

JUNE 30, 2008



Note: See page 67 in the Investment Section for a summary of fees paid to investment professionals and pages 148-151 in the Statistical Section for a detailed list of the investment professionals who provide services to the State Investment Board and their corresponding fees.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

CONSULTING AND PROFESSIONAL SERVICES

AS OF JUNE 30, 2008

Actuary

Gabriel, Roeder, Smith & Co.
Dallas, Texas

Auditor

Brady, Martz & Associates, P.C.
Bismarck, North Dakota

Legal Counsel

North Dakota Attorney General's
Office
Bismarck, North Dakota

Information Technology

CPAS Systems Inc.
Toronto, Ontario

Master Custodian

The Northern Trust Company
Chicago, Illinois

Investment Consultant and Performance Measurement

Callan Associates Inc.
San Francisco, California

Investment Managers

Adams Street Partners, LLC
Chicago, Illinois

Bank of North Dakota
Bismarck, North Dakota

Brandywine Asset Management
Wilmington, Delaware

Calamos Advisors LLC
Naperville, Illinois

Callan Associates
San Francisco, California

Capital Guardian Trust Company
Los Angeles, California

Clifton Group
Minneapolis, MN

Corsair Capital
New York, New York

Coral Partners, Inc.
Minneapolis, Minnesota

Declaration Mgmt & Research, LLC
McLean, Virginia

Dimensional Fund Advisors
Chicago, Illinois

Investment Managers (cont.)

Epoch Investment Partners, Inc.
New York, New York

European Credit Mgmt
London, England

Franklin Porfolio Associates, LLC
Boston, Massachusetts

Goldman Sachs Asset Mgmt
New York, New York

Hearthstone Homebuilding
Investors, LLC
Encino, California

Hyperion Brookfield Asset
Management Inc.
New York, New York

INVESCO Realty Advisors
Dallas, Texas

InvestAmerica L&C, LLC
Cedar Rapids, Iowa

J.P. Morgan Invest. Mgmt, Inc.
New York, New York

Loomis Sayles & Company
Boston, Massachusetts

Los Angeles Capital Management
Los Angeles, California

LSV Asset Management
Chicago, Illinois

Matlin Patterson Global Advisers LLC
New York, New York

Northern Trust Global Investments
Chicago, Illinois

PanAgora Asset Management, Inc.
Boston, Massachusetts

PIMCO
Newport Beach, California

Prudential Investment Management
Newark, New Jersey

Quantum Energy Partners
Houston, Texas

Quantum Resources Mgmt, LLC
Denver, Colorado

Research Affiliates, LLC
Newport Beach, California

Investment Managers (cont.)

SEI Investments Management Co.
Oaks, Pennsylvania

State Street Global Advisors
Boston, Massachusetts

Trust Company of the West Asset
Management Co.
Los Angeles, California

Timberland Investment
Resources, LLC
Atlanta, Georgia

UBS Global Asset Management
Chicago, Illinois

The Vanguard Group
Valley Forge, Pennsylvania

Wellington Trust Company, NA
Boston, Massachusetts

Wells Capital Management, Inc.
Menomonee Falls, Wisconsin and
Minneapolis, Minnesota

Western Asset Management Co.
Pasadena, California

WestLB Asset Management, LLC
Chicago, Illinois

Westridge Capital Mgmt, Inc.
Santa Barbara, California

Securities Lending

Wachovia Global Securities
Lending
Short Hills, New Jersey

Certificate of Achievement for Excellence in Financial Reporting

Presented to
North Dakota
Retirement and Investment
Office

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox
President

Jeffrey R. Enen
Executive Director



Public Pension Coordinating Council

***Recognition Award for Administration
2008***

Presented to

North Dakota Teachers' Fund for Retirement

In recognition of meeting professional standards for
plan administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink, reading 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator

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